

# Taxation of a Charitable Gift Annuity

Payments received from charitable gift annuities are taxed in the same manner as commercial annuities, i.e., using the annuity exclusion ratio. However, many individuals prefer the fixed, predictable income and upfront income tax deduction received when funding a gift annuity. This often gives them an advantage over payments from pooled income funds or charitable remainder trusts, from which the income may be fully taxable.

A portion of each payment from an annuity is considered to be a return of principal and is, therefore, exempt from income tax. Also, when funded with appreciated property, a portion of the payment will be taxed at capital gains rates.

## Payment Allocation

The chart below illustrates the allocation of payments from a charitable gift annuity as various types of income. The examples are based on the following set of assumptions:

Amount contributed: \$100,000

Payout rate: 7.0%

Age of beneficiary: 75

Applicable federal rate (AFR): 5.2%

### Assuming a Cash Contribution of \$100,000

Years	Annual Income	Ordinary Income	Exempt Income	Long-Term Capital Gain
1	\$7,000	\$2,282	\$4,718	\$0
2-12	\$7,000	\$2,282	\$4,718	\$0
13	\$7,000	\$5,132	\$1,868	\$0
Thereafter	\$7,000	\$7,000	\$0	\$0

### Assuming a Stock Contribution with Basis of \$50,000

Years	Annual Income	Ordinary Income	Exempt Income	Long-Term Capital Gain
1	\$7,000	\$2,282	\$2,360	\$2,358
2-12	\$7,000	\$2,282	\$2,360	\$2,358
13	\$7,000	\$5,132	\$925	\$943
Thereafter	\$7,000	\$7,000	\$0	\$0

**Note:** The donor will also receive a current income tax deduction of approximately \$41,516.

---

# Taxation of a Charitable Gift Annuity

---

## Appreciated Capital Assets

Appreciated capital assets held long-term may be exchanged for a charitable gift annuity without taxation of the unrealized capital gain at time of transfer (much like a charitable remainder trust) unless an income beneficiary other than the donor and his or her spouse is named. In such cases, the full, unrealized gain is taxable to the donor/grantor.

## Seek Professional Guidance

Because of the complexity involved, the advice and guidance of appropriate tax, legal, and other financial professionals is highly recommended.

---

# Disclosure Notice

---

The information that follows is intended to serve as a basis for further discussion with your financial, legal, tax and/or accounting advisors. It is not a substitute for competent advice from these advisors. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney. The application of other concepts may require the guidance of a tax or accounting advisor. The company or companies listed below are not authorized to practice law or to provide legal, tax, or accounting advice.

Although great effort has been taken to provide accurate data and explanations, and while the sources are deemed reliable, the information that follows should not be relied upon for preparing tax returns or making investment decisions. This information has neither been audited by nor verified by the company, or companies, listed below and is therefore not guaranteed by them as to its accuracy.

**If a numerical analysis is shown, the results are neither guarantees nor projections, and actual results may differ significantly. Any assumptions as to interest rates, rates of return, inflation, or other values are hypothetical and for illustrative purposes only. Rates of return shown are not indicative of any particular investment, and will vary over time. Any reference to past performance is not indicative of future results and should not be taken as a guaranteed projection of actual returns from any recommended investment.**